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OKANAGAN HELICOPTERS LTD. ANNUAL REPORT FOR THE YEAR 1964





APR 19 1965

OKANAGAN HELICOPTERS LTD. AND SUBSIDIARIES

DIRECTORS

O. ST. P. AITKENS, M.C.	Kelowna, B.C.
A. H. BENT	Penticton, B.C.
D. DEWAR, C.B.E.	Vancouver, B.C.
C. N. EFFINGER	Vancouver, B.C.
FREDERICK FIELD, F.C.A.	Vancouver, B.C.
W. J. MacKENZIE, M.E.	Kelowna, B.C.
G. W. McPHERSON	Vancouver, B.C.
A.V.M. L. F. STEVENSON, C.B.	Vancouver, B.C.
J. J. WEST	Vancouver, B.C.

OFFICERS

Honorary Chairman	DOUGLAS DEWAR, C.B.E.
Chairman of the Board	A.V.M. L. F. STEVENSON, C.B.
Vice-Chairman	J. J. WEST
President and Managing Director	G. W. McPHERSON
Vice-President of Finance, and Secretary	I. KENNEDY, C.A.
Vice-President of Operations	F. W. SNELL

HEAD OFFICE

VANCOUVER AIRPORT, VANCOUVER, BRITISH COLUMBIA, CANADA

SALES OFFICE

Vancouver Airport, Vancouver, British Columbia, Canada

BASES AND SALES OFFICES

CALGARY	AM 3-6928
CAMPBELL RIVER	287-6118
CRANBROOK	426-4316
FORT NELSON	774-6416
FORT ST. JOHN	ST 5-3845
KAMLOOPS	376-8044
KEMANO	Kitimat 620
GOOSE BAY	TW 6-2883
MONTREAL	636-1874
NELSON	352-5411
NANAIMO	754-4811
PRINCE GEORGE	LO 4-2354
REVELSTOKE	TE 7-4044
SMITHERS	846-5656
TERRACE	VI 3-2430
VANCOUVER	CR 8-5502
	WA 2-9574
WHITEHORSE, Y.T.	

AUDITORS

PEAT, MARWICK, MITCHELL & CO.,
410 Seymour Street, Vancouver, B.C.

REGISTRAR AND TRANSFER AGENTS

THE CANADA TRUST COMPANY . . . Vancouver, Calgary, Winnipeg

SUBSIDIARY COMPANIES

CANADIAN HELICOPTERS LIMITED, SMART AVIATION LIMITED,
PACIFIC HELICOPTERS LTD., AGAR HELICOPTER CONSULTANTS LTD.,
OKANAGAN COPTER SPRAYS LIMITED, COPTER CABS LTD.

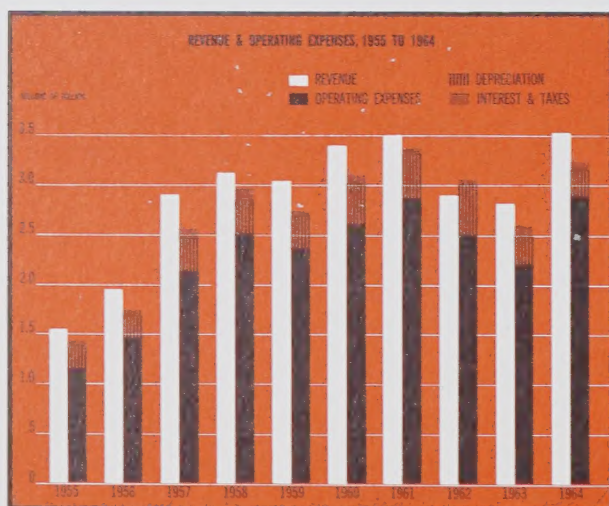


ANNUAL REPORT TO THE SHAREHOLDERS

The following is the report of your Directors on the operations of your company. It includes the Consolidated Balance Sheet, the Statement of Consolidated Earnings, a Statement of Source and Application of funds, and the Auditors' Report thereon for the year ended December 31, 1964. This report contains some charts giving comparative figures for the last ten years' operations of the company, from the year 1955 to 1964, both inclusive, and your Directors hope that you will find these charts interesting and informative.

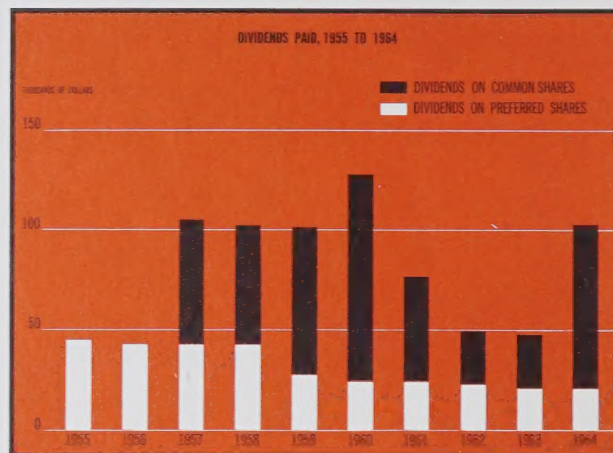
FINANCIAL

The Statement of Consolidated Earnings shows an operating profit for 1964 of \$632,550, before depreciation and interest charges. After these charges and taxes there is a net profit of \$293,419, as compared with a 1963 net profit of \$237,146.



Gross revenue for the year exceeded \$3,522,000, up 3,000 revenue flying hours and \$718,392 over 1963, while aircraft operating expenses increased by \$638,170. A substantial part of the increases in gross revenue and revenue hours resulted from the merger with Pacific Helicopters Ltd.

Dividends on the 6% preferred shares have been duly paid, and sinking fund provisions complied with. Your Directors were pleased to declare an interim dividend of 5 cents on the common shares last fall, and are further pleased to report that a 15-cent dividend was declared on March 12, 1965 and will be paid on April 27, 1965.



DEVELOPMENT AND PROGRESS

Because few past years have brought developments more significant for your company than the one under review, the following is included to present these events in appropriate detail and perspective:

1964 was highlighted by emergence of the company for the first time into the field of overseas operations, in East Pakistan and the United Kingdom. Okanagan became a truly international company, a change of status designed to create wider horizons and new opportunities.

The United Kingdom operation found its origin in recognition of the need, if the company was to keep growing, to establish a foothold in an environment more conducive to expansion than is currently offered in Canada, where we have a relatively short helicopter operating season.

Your company was awarded a contract by a major oil producer to service with big helicopters oil and gas drilling platforms to be stationed in the North Sea off the east coast of the United Kingdom. To facilitate the obtaining of licences, operating certificates and other amenities, a new company, International Helicopters Ltd., was incorporated to carry out this contract.

These operations are considered to have a great sustained growth potential, and there is every reasonable expectation that your company, by its initiative, has gained a favourable position

in continuing negotiations with other companies having exploration and development rights in North Sea and other areas, to provide similar off-shore services.

Although not on a comparable scale, the East Pakistan operation has proved to be a good introduction to all aspects of supporting overseas projects and is going well, with some possibility of the current nine-month contract for the supply of one Bell J helicopter for land-use survey purposes being extended. It is hoped that additional foreign work will be obtained under the auspices of the Canadian government's External Aid Program.

Domestically, your company operated a total of 64 helicopters during the year. Revenue hours totalled over 20,000, to build a cumulative total of more than 230,000 hours of rotary-wing experience.

As stated in the Interim Report to Shareholders of October 13, the merger of your company last February with Pacific Helicopters Ltd. enabled management to eliminate much duplication of services, and reduce operating and administrative costs in an increasingly competitive market in this Province.

In March, the company was successful in winning the first two-year contract to be awarded by the B.C. Forest Service, for the supply of 12 helicopters for five-month periods annually for forest fire protection purposes, this affording an increased measure of economic stability to our year-round regional bases, from which this contract is serviced.

Tapping a broad new field of helicopter applications has become increasingly difficult, but your Directors believe this has been achieved by your company obtaining the Canadian rights to a new invention called the Hoversight. This precision instrument has been installed in two Hiller helicopters modified to incorporate an automatic stabilization system. When fitted with a tellurometer, a distance-measuring device, these helicopters then function as highly-accurate survey instruments in themselves.

Canadian government and industry have shown a strong interest in the system, and a new company, Canadian Air Borne Control Surveys Ltd., has been formed in association with a Vancouver survey firm to exploit the new system in Canada and abroad.

Our pipeline patrol contract was renewed during the year, as were our other long-term contracts at Kemano, B.C. and Goose Bay, Labrador. Mid-Canada Defence Line operations continue although on a reduced basis due to the closing down of certain

military installations.

A change of membership in the Board of Directors occurred during the year. Mr. Claude N. Effinger was welcomed to the Board to fill the vacancy created by the resignation of Mr. John Nichol, for personal reasons. Mr. Effinger is well-known in Vancouver's business life and is a most worthy successor to Mr. Nichol.

OUTLOOK FOR 1965

The year ahead promises to be one of great interest. Your directors plan a program of careful consolidation of development steps taken during the year to achieve and maintain flexibility in times of generally increasing but changing demands for helicopter services.

You will be pleased to know that most of our domestic fleet is already committed for the 1965 season. We have extended our regional base system by the addition of Nanaimo and Fort Nelson. It is particularly interesting to note a rising demand for services of big helicopters as part of British Columbia's surging economy.

The broadened economic base of your company indicates that 1965 will show further improvement in its financial position.

Your Directors and Management welcome this opportunity to again acknowledge the contributions of the company's employees. The considerable progress attained against intensive competition and rising operating costs attests to their imagination, ability and industry.

Particularly is credit due Okanagan personnel who participated so effectively, often under the most hazardous flying conditions, in rescue operations at the site of the Granduc mine disaster in February this year. They earned the respect and admiration of all who were privileged to witness exceptional devotion to duty, and the right to a special vote of deepest appreciation.

A.V.M. L. F. STEVENSON, C.B.
Chairman of the Board
April 1st, 1965.

G. W. McPHERSON
President and Managing Director



OKANAGAN HELICOPTERS LTD. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET DECEMBER 31, 1964 with comparative figures

ASSETS

	1964	1963
CURRENT ASSETS:		
Cash.....	\$ 33,067	\$ 76,022
Short-term investments of surplus funds, at cost.....		160,525
Accounts receivable.....	625,254	246,759
Inventories of parts and supplies, at lower of cost or replacement cost.....	234,951	190,486
Prepaid insurance and other expenses.....	62,656	121,042
Total current assets.....	955,928	794,834
FIXED ASSETS, AT COST:		
Hangars, machine shop and office building on leased property.....	231,499	195,100
Aircraft.....	3,613,653	3,335,438
Engines and power packs.....	403,010	408,788
Other flying equipment.....	692,927	571,426
Ground equipment.....	150,643	137,364
Office furniture and fixtures.....	17,508	11,105
Aircraft under construction.....	1,027,972	
	6,137,212	4,659,221
Less accumulated depreciation.....	2,616,670	2,319,774
	3,520,542	2,339,447
	<u>\$4,476,470</u>	<u>\$3,134,281</u>

See accompanying notes to financial statements.

LIABILITIES**CURRENT LIABILITIES:**

	1964	1963
Due to bank, on current account.....	\$ 226,127	
Accounts payable and accrued expenses.....	246,633	\$ 295,281
Instalments payable on equipment purchase agreements within one year.....	324,100	231,388
Income taxes payable.....	14,083	36,739
Total current liabilities.....	810,943	563,408
Bank loan repayable February 4, 1966 (secured by 6% First Mortgage Debenture on all fixed assets for \$1,000,000).....	611,000	
Equipment purchase agreements, secured.....	841,068	483,198
Less instalments shown above.....	324,100	231,388
	516,968	251,810
CAPITAL AND EARNINGS RETAINED AND USED IN THE BUSINESS:		
Capital stock (Note 1):		
6% cumulative redeemable preferred shares of \$10 par value per share. Authorized 75,000 shares; issued 35,466 shares (1963, 37,117 shares).....	354,660	371,170
Ordinary shares of no par value. Authorized 1,000,000 shares; issued 568,039 shares (1963, 518,267 shares).....	934,257	844,668
	1,288,917	1,215,838
Capital redemption reserve created pursuant to Section 63 of the Companies Act (British Columbia).....	132,720	116,210
Earnings retained and used in the business, per accompanying statement.....	1,115,922	987,015
	2,537,559	2,319,063
Commitments (Note 3).	<u>\$4,476,470</u>	<u>\$3,134,281</u>

Approved on behalf of the Board: L. F. STEVENSON, Director, G. W. McPHERSON, Director
 Countersigned: IAN KENNEDY, Secretary



OKANAGAN HELICOPTERS LTD. AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED EARNINGS

YEAR ENDED DECEMBER 31, 1964 with comparative figures for 1963

	1964	1963
Income from helicopter operations and aircraft services.....	\$3,522,147	\$2,803,755
OPERATING EXPENSES:		
Aircraft operations, maintenance and other operating expenses.....	2,641,835	2,003,665
Administrative and general expenses (including directors' fees in 1964, \$5,600; 1963, \$4,850).....	247,762	235,342
	<u>2,889,597</u>	<u>2,239,007</u>
Operating profit before depreciation.....	632,550	564,748
Depreciation (Note 2).....	274,701	247,621
Operating income.....	<u>357,849</u>	<u>317,127</u>
Interest charges, net.....	57,091	46,681
Earnings before taxes on income.....	<u>300,758</u>	<u>270,446</u>
Taxes on income (Note 2).....	7,339	33,300
Net earnings.....	<u>\$ 293,419</u>	<u>\$ 237,146</u>

STATEMENT OF CONSOLIDATED EARNINGS RETAINED AND USED IN THE BUSINESS

	1964	1963
Balance at beginning of year.....	\$ 987,015	\$ 758,378
Add net earnings for the year.....	293,419	237,146
	<u>1,280,434</u>	<u>995,524</u>
Deduct:		
Dividends paid:		
Preferred shares at 6%.....	21,865	22,359
Common shares at 15c (1963, 5c) per share.....	80,229	25,913
Amount transferred to capital redemption reserve.....	16,510	1,838
Premium on redemption of preferred shares.....	338	
Loss (gain) on sale of assets.....	45,570	(41,601)
	<u>164,512</u>	<u>8,509</u>
Balance at end of year.....	<u>\$1,115,922</u>	<u>\$ 987,015</u>

See accompanying notes to financial statements.

OKANAGAN HELICOPTERS LTD. AND SUBSIDIARIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1964 with comparative figures for 1963

FUNDS PROVIDED BY:

	1964	1963
Operations:		
Net profit.....	\$ 293,419	\$ 237,146
Add charges not requiring cash expenditure, depreciation.....	274,701	247,621
Funds provided by operations.....	568,120	484,767
Sale of equipment.....	354,530	263,262
Long-term borrowings.....	611,000	
Increase in equipment purchase agreements.....	265,158	(15,615)
Total funds provided.....	1,798,808	732,414
FUNDS APPLIED TO:		
Purchase of equipment.....	1,855,896	478,568
Less paid by issue of ordinary shares.....	89,589	
	1,766,307	478,568
Dividends:		
Preferred shares.....	21,865	22,359
Common shares.....	80,229	25,913
Redemption of preferred shares.....	16,848	2,698
Total funds applied.....	1,885,249	529,538
Increase (decrease) in working capital.....	(86,441)	202,876
Working capital at beginning of year.....	231,426	28,550
Working capital at end of year.....	\$ 144,985	\$ 231,426



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1964

1. The preferred shares are redeemable at \$10.50 per share. The terms of issue provide for an annual sinking fund provision (subject to certain provisions) of \$15,000. During 1964, 1,651 shares were redeemed and cancelled.
During 1964, 49,772 ordinary shares were issued in part payment of the outstanding shares of Pacific Helicopter Holdings Ltd.
There are certain restrictions as to the payment of dividends on ordinary shares.
Options were granted in December 1957 to certain senior officials of the company to purchase a total of 40,000 ordinary shares at \$2.25 per share, exercisable in varying amounts until December 31, 1966.
2. Provision for depreciation of flying equipment has been made at the rate of 10% (straight-line method) on cost less estimated residual value, as in the previous year. At the maximum rate of 40% (reducing balance method) allowable for income tax purposes an additional \$292,000 will be claimed in 1964 (1963, \$186,000) which will reduce income taxes otherwise exigible by approximately \$146,000 (1963, \$93,000). The accumulated tax reductions to date under this procedure amount to \$849,000.
3. Commitments:
At December 31, 1964, commitments for the completion of the construction of aircraft amounted to approximately \$885,698.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Okanagan Helicopters Ltd. and subsidiary companies as of December 31, 1964 and the statements of consolidated earnings and consolidated earnings retained and used in the business for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and statements of consolidated earnings and consolidated earnings retained and used in the business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its subsidiaries at December 31, 1964 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds presents fairly the information shown therein.

Vancouver, B.C.
February 12, 1965

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS



